

# Instructions for Form 5471

(Revised November 1987)

## Information Return With Respect to a Foreign Corporation

**Paperwork Reduction Act Notice.**—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

**Purpose of Form.**—Certain U.S. persons involved in international operations file Form 5471 to report their activities.

### Pending Legislation May Affect Form 5471

At the time Form 5471 was sent to print, legislation was pending that would result in changes to Form 5471. Among the changes being considered are a change in computing the foreign tax credit for income of a controlled foreign corporation and changes to the related-person insurance income rules.

**Items You Should Note.**—The Tax Reform Act of 1986 made several changes to the way subpart F income is computed including: new rules for the de minimis inclusion of subpart F income; a new definition of controlled foreign corporation; and limitations on subpart F income.

Also changes have been made to the definitions of: foreign personal holding company; foreign personal holding company income; and insurance income, including adding a new type of income-related person insurance income.

In addition, the special treatment of possessions corporations (those qualifying for the section 936 credit) has been repealed. These corporations are now subject to the provisions of subpart F. Also, rules for new code section 263A, capitalization and inclusion in inventory costs of certain expenses, have been added.

Two new entities were added by the Tax Reform Act of 1986. These entities are passive foreign investment companies and qualified electing funds.

A passive foreign investment company is a foreign corporation that is described in section 1296. To qualify, the corporation must meet either an income test or an asset test. Shareholders of a foreign investment company only include amounts in income when the investment company makes a distribution. The shareholders must pay interest and additional taxes if the distribution is an excess distribution (see section 1291(b)).

A qualified electing fund is a passive foreign investment company that makes an election to have its shareholders include amounts in income on a yearly basis, whether or not income is distributed.

A U.S. person who holds an interest in a passive foreign investment company must

complete Schedule O to show the amount of his or her interest in a passive foreign investment company on January 1, 1987. Any U.S. person who acquires an interest in a passive foreign investment company after January 1, 1987, must report the acquisition of an interest in a passive foreign investment company on Schedule O. Any U.S. person required to report the acquisition of an interest in a passive foreign investment company must also report the disposition of that interest on Schedule O.

Lastly, one important change was made by the Omnibus Reconciliation Act of 1986—income from countries that support international terrorism will be considered to be remitted to the U.S. shareholders of the foreign corporation at the end of the controlled foreign corporation's tax year.

All of these changes appear under the relevant part of these instructions.

**Foreign Sales Corporations.**—Shareholders, officers, and directors of a Foreign Sales Corporation (FSC), as defined in section 922, do not have to file Form 5471 and Schedule O to report the organization of a FSC. However, any subsequent reorganization, transfer, or acquisition of stock in the FSC must be reported.

Foreign sales corporations are generally not subject to the subpart F rules contained in sections 951-964. However, the non-exempt portion of a FSC's foreign trade income computed without regard to the administrative pricing rules (section 923(a)(2) income) is subject to subpart F rules. When a FSC is a controlled foreign corporation and has section 923(a)(2) non-exempt income, U.S. shareholders must file Form 5471 and any appropriate schedule(s).

**Computer Generated Form 5471 and Schedules.**—You may submit computer generated printouts of Form 5471 and its schedules. Generally, all computer generated forms must receive prior approval from the IRS. The IRS will, however, issue a Revenue Procedure to provide guidance for filers of computer generated forms. For exceptions to this requirement, see Specific Instructions. Please submit all requests for approval to: Internal Revenue Service, Attention: Substitute Forms Program, TR:R:R, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

### Who Must File Form 5471

Generally, the following U.S. persons who have an interest in a foreign corporation must file Form 5471. However, it may not be necessary to complete all of the schedules. Please read each of the

categories of filers to determine which schedules apply. Do not duplicate information if you are described in more than one filing category. However, you must complete all schedules that apply to you.

You must complete a separate Form 5471 and the applicable schedules for each foreign corporation.

All filers should complete the identifying data and items 1 and 2 on page 1 of Form 5471.

Under certain circumstances, one person may file Form 5471 and the applicable schedules for other persons who have the same filing requirements. Please refer to the specific instructions for Schedule L.

### Categories of Filers

**A.** U.S. citizens or residents who are officers, directors, or 10% or more shareholders in a foreign personal holding company.—Complete Schedules A through F and N. Also, see the instructions for Schedule L, if the same information is required of more than one person.

**B.** U.S. citizens or residents who are officers or directors of a foreign corporation in which a U.S. person acquires a 5% or more ownership, or acquires an additional 5% or more ownership in that foreign corporation (from the last time information was reported).—Complete only Form 5471 and Part I of Schedule O. Also, see the instructions for Schedule L if the same information is required of more than one person.

**C.** A U.S. person who is a shareholder in a foreign corporation and who—

(1) acquires a cumulative 5% or more ownership in the outstanding stock of the foreign corporation,

(2) acquires an additional 5% or more ownership in the outstanding value of the stock in the foreign corporation,

(3) owns 5% or more in the value of the outstanding stock of the foreign corporation when the corporation is reorganized,

(4) disposes of sufficient stock in the foreign corporation to reduce the U.S. person's ownership in the value of the outstanding stock in the foreign corporation to less than 5%; or

(5) becomes a U.S. person while owning 5% or more in value of the outstanding stock of the foreign corporation.—Complete Schedules C through F, K, and O.

**D.** A U.S. person who had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation.—Complete Schedules A through G, I, and M.

Also, see the instructions for Schedule L if the same information is required of more than one person.

**E.** A U.S. person who was a 10% or more shareholder in a corporation that was a controlled foreign corporation for an uninterrupted period of 30 days during its annual accounting period, and who owned stock in the controlled foreign corporation on the corporation's last day of its annual accounting period.—Complete Schedules C, D, E, J, and K. See the worksheets in the instructions for the computation of subpart F income. See section 957(c) for exceptions for individuals who are residents of certain U.S. possessions.

F. A U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958) any stock in a related person insurance company must complete Schedules C, D, E, J, and K.

A related person insurance company is an insurance company the income of which is attributable to the insuring or reinsuring of its shareholders and persons related to its shareholders.

## Definitions

**U.S. Person.**—A U.S. person is any of the following:

- (1) a U.S. citizen or resident,
- (2) a domestic partnership,
- (3) a domestic corporation, or
- (4) any estate or trust (other than a foreign estate or trust within the meaning of section 7701(a)(31)).

**Control.**—A U.S. person “controls” a foreign corporation if that person owns stock with more than 50% of the voting power of all classes of stock entitled to vote, or if that person owns more than 50% of the total value of all shares of stock in the foreign corporation.

In determining “control,” the rules for constructive ownership contained in section 318 apply with the following exceptions:

(a) if a non-U.S. person who is a partner or who is a beneficiary of an estate or trust is the owner of the stock, the U.S. partnership or estate or trust will not be considered to own such stock;

(b) if a non-U.S. person is a shareholder in a U.S. corporation, the corporation will not be considered to own the stock of the shareholder;

(c) if 10% or more in the value of the stock is owned, directly or indirectly, by or for any person, section 318(a)(2)(C) will apply.

**U.S. Shareholder.**—A U.S. shareholder of a foreign corporation is any U.S. person who owns (directly, indirectly, or constructively) 10% or more of the total combined voting power of all classes of stock of the foreign corporation entitled to vote. For rules for determining stock ownership, see section 958.

**Controlled Foreign Corporation.**—A controlled foreign corporation is any foreign corporation if more than 50%: 1) of the total combined voting power of all classes of stock of the corporation entitled to vote, or 2) of the total value of the stock of the corporation is owned, or considered as owned by applying the ownership rules of section 958(b), by U.S. shareholders on any day of the corporation’s tax year.

**Subpart F income.**—Subpart F income is defined in section 952. Generally, subpart F income includes—

- (1) insurance income and related person insurance income;
- (2) foreign base company income;
- (3) international boycott income;
- (4) the amount of any illegal bribes, kickbacks, or other payments made to an employee, official, or agent of a government;
- (5) amounts withdrawn from investments in less developed country corporations;

(6) amounts withdrawn from investments in foreign based shipping operations;

(7) the increase in earnings of the corporation invested in U.S. property for the year; and

(8) income derived from a country described in section 952(a)(5).

**Related persons.**—For purposes of completing Schedules C and D, the term “related” includes any person who has a relationship with the foreign corporation that is described in section 267(b). Also, the rules concerning the constructive ownership of stock contained in section 267(c) apply.

## Subpart F Changes

**Subpart F Income Limited to Current Earnings and Profits.**—Subpart F income is now generally limited to current earnings and profits. If the earnings and profits of a controlled foreign corporation are, however, greater than the subpart F income of the controlled foreign corporation in one tax year, the excess of the earnings and profits in the first tax year will be recharacterized as subpart F income in a subsequent tax year.

## Qualified Deficits Allowed Only To Reduce Certain Categories of Income.

—A qualified deficit is a deficit in the earnings and profits of the foreign corporations in a prior tax year beginning after 1986, but only to the extent it belongs to the same qualified activity it serves to reduce. Amounts used to reduce previous earnings and profits may not be used again. A qualified activity is defined as any activity giving rise to: 1. foreign base company shipping income, 2. foreign base company oil related income, 3. in the case of a qualified insurance company, insurance income, or 4. in the case of a qualified financial institution, foreign personal holding company income. See section 952(c) for more information.

**Exception for Certain Income Subject to High Foreign Tax.**—Foreign base company income and insurance income will not be considered as such if the taxpayer can establish to the satisfaction of the Secretary that the income was subject to an effective rate of tax that is greater than 90% of the highest rate of tax specified under section 11. This rule does not apply to any oil-related income as defined in section 954(a)(5).

**New Rules.**—The following rules were enacted by the Tax Reform Act of 1986.

## Special Rule for Related Person

**Insurance Companies.**—For purposes of considering whether a foreign insurance company is a related person insurance company, U.S. shareholders must own 25% of the voting power of the foreign corporation.

**New De Minimis Rules for Foreign Base Company Income.**—If the total of foreign base company income and gross insurance income of a controlled foreign corporation is less than the lesser of 1) 5% of gross income (determined without regard to applicable deductions), or 2) \$1,000,000, no amount will be included in the gross income of its U.S. shareholders.

**Rules for Total Inclusion of All Foreign Base Company Income.**—If the total of foreign base company income and gross insurance income is more than 70% of gross income, then the total amount of gross income will be included in the income of its U.S. shareholders. The income will be allocated as either insurance or other income.

**Repeal of Special Treatment of Possessions Corporations.**—Possessions corporations that have made an election under section 936 will no longer be exempt from the subpart F rules. This change is effective for tax years beginning after 1986.

## When and Where To File.

File Form 5471 and appropriate schedules in duplicate when your tax return is due including extensions. Attach one copy to your income tax return, and send a copy to the Internal Revenue Service Center, Philadelphia, PA 19255. Except for information contained on Schedule O, report information for the tax year of the foreign corporation that ends with or within your tax year.

When filing Schedule O, report acquisitions, dispositions, and reorganizations that occurred during your tax year.

## Special Filing Requirements for Persons Not Required To File an Income Tax Return.

—If you are not required to file an income tax return but are required to file Form 5471 and Schedule O, you must file Form 5471 and Schedule O with the Internal Revenue Service Center, Philadelphia, PA 19255. File Form 5471 and Schedule O by April 15 of the year following the calendar year in which you became liable to file Form 5471 and Schedule O. Report acquisitions, dispositions, and reorganizations that occurred during the calendar year.

**Penalties.**—Failure to file Form 5471 and the applicable schedules may result in the application of civil penalties unless reasonable cause can be shown. Criminal penalties may also apply.

## Failure To Submit Information Required Under Section 6035 (Form 5471 and Schedule N).

—Any person required to submit this type of information who fails to do so or fails to report the information requested may be subject to a penalty of \$1,000 (section 6679). Additionally, criminal penalties under sections 7203, 7206, and 7207 may apply for failure to submit information or for filing false or fraudulent information.

Any person required to file Form 5471 and Schedule N who agrees to have another person file the form and schedule for him or her may be subject to the penalty if the other person does not file a correct and proper form and schedule.

## Failure To Submit Information Required Under Section 6038 (Form 5471 and Schedule M).

—Section 6038 states that any person who fails to submit the required information under that Code section will lose a portion of the foreign taxes available for credit under sections 901, 902, and 960. The reduction is 10% of the taxes available for credit for failure to submit the information when required; and an additional 5% reduction is made for each additional 3 months that the required information is not submitted after notification by the Secretary. See section 6038(c)(2) for limits on the amount of this penalty.

Also, a penalty of \$1,000 is imposed for failing to supply the information for each controlled foreign corporation under section 6038 when required. Additionally, if the required information is not submitted within 90 days after the Secretary has mailed

notice to the U.S. person, an additional \$1,000 penalty (per corporation) is charged for every 30 days that the information is not submitted. See section 6038(c)(3) and regulations section 1.6038-2(k)(2)(vi) for rules coordinating these penalties.

Any person required to file Form 5471 and Schedule M who agrees to have another person file the form and the schedule for him or her may be subject to the penalty if the other person did not file a correct and proper form and schedule.

**Failure To Submit Information Required Under Section 6046 (Form 5471 and Schedule O).**—Any U.S. person who is required to file Form 5471 and Schedule O may be subject to a penalty of \$1,000 for each failure to timely file information with respect to each reportable transaction or for failure to submit the required information with respect to each transaction. (Section 6679(a).)

Any person required to file Form 5471 and Schedule O who agrees to have another person file the form and schedule for him or her may be subject to the penalty if the other person does not file a correct and proper form and schedule.

## General Instructions

**Page One.**—Enter your name, address, ZIP code, and identifying number. For individuals, their identifying number is their social security number; for all others, their identifying number is their employer identification number.

**Name of Filer or Foreign Corporation.**—If either the name of the person filing this return or the corporation whose activities are being reported has changed since the last time information was reported, attach a statement explaining the change and showing the prior name.

### Line 1—

f. Enter the principal country in which the foreign corporation conducts its trade or business. This country may be different than the country of incorporation.

g. Enter the business code number for the principal business activity. The codes are listed on page 12.

h. Enter the principal business activity of the foreign corporation. See page 12 for a description of various business activities.

**Line 2**—If the foreign corporation had a branch or agent in the U.S., enter the name and identifying number of the branch or agent in the space provided on line 2. If the foreign corporation filed a U.S. income tax return, please complete the rest of the information on line 2.

## Specific Instructions

**Schedule B, column (b).**—For purposes of Schedule B, column (b), enter the highest percentage of the value of the foreign corporation's stock owned by each U.S. shareholder during the annual accounting period of the foreign corporation.

**Completion of Schedules C, D, E, F, or I.**—If you are required to complete Schedules C, D, E, F, or I for the annual accounting period of the foreign corporation, you may submit the information on any of those schedules in the form of statements that are in conformity with generally accepted accounting principles, rather than completing the line entries on the schedules.

**Schedule F**—Complete the balance sheets showing all appropriate amounts at the beginning and the end of the foreign corporation's annual accounting period.

**Schedule G**—If the foreign corporation had outstanding loans or indebtedness to or from shareholders or other related parties at either the beginning or end of the foreign corporation's annual accounting period, please complete Schedule G.

**Schedule H**—Schedule H must be completed by any domestic corporation for each controlled foreign corporation in which it owns (as determined under section 958) 50% or more of the total combined voting power of all classes of stock entitled to vote. However, Schedule H will only be required for those tax years of the foreign corporation for which—

(1) An amount is includible in the gross income of such person with respect to such foreign corporation under section 951(a) and the benefits of section 960 are claimed;

(2) An amount is excluded from the foreign corporation's subpart F income (within the meaning of section 952) by section 952(b); or

(3) The benefits of section 902 are claimed with respect to taxes paid by such foreign corporation.

However, you are not required to complete Schedule H if total assets at the end of the annual accounting period are less than \$25,000.

If more than one corporation is required to furnish the information required by Schedule H with respect to the same foreign corporation for the same year, only one corporation need file the information if the other corporation indicates on its income tax return filed with respect to such corporation, the name, address, and employer identification number of the corporation filing the information.

**Exchange Rates.**—In converting items on the profit and loss statement to U.S. dollars, the exchange rate(s) used shall be computed under the rules contained in sections 985 to 989.

**Blocked Income.**—The earnings and profits of the foreign corporation, as reflected on Schedule H, shall not be reduced by reason of the fact that all or any part of such earnings and profits could not have been distributed by the foreign corporation, because of currency or other restrictions or limitations imposed under the laws of any foreign country.

**Schedule I**—Complete Schedule I to analyze the unappropriated retained earnings of the foreign corporation at the end of its annual accounting period.

However, you are not required to complete Schedule I if the total assets at the end of the annual accounting period are less than \$25,000.

**Schedule J.**—Use Schedule J to report subpart F income of the controlled foreign corporation.

If the sum of the foreign base company income (determined without regard to applicable deductions) and gross insurance income is less than the lesser of 5% of gross income or \$1,000,000, no portion of gross income shall be considered foreign base company income or insurance income.

If the sum of the foreign base company income (determined without regard to applicable deductions) and gross insurance income is greater than 70% of gross income, all of the gross income of the foreign corporation shall be treated as foreign base company income or insurance income.

Factoring income of a controlled foreign corporation is included in the income of its U.S. shareholders even if the sum of the foreign base company income (determined without regard to applicable deductions) and gross insurance income is less than the lesser of 5% of gross income or \$1,000,000. Factoring income is, however, included when determining whether the 5% \$1,000,000, or 70% test is met.

The worksheets that follow in these instructions may be used by U.S. shareholders to compute income of the controlled foreign corporation whose annual accounting period ends with or within the U.S. shareholder's income tax year. Do not file these worksheets when filing Form 5471.

**New Definition of Insurance Income.**—Insurance income for purposes of section 952(a)(1) is defined as any income that is attributable to an insurance or annuity contract connected with property in, liability arising out of an activity in, or in connection with the health or lives of residents of countries other than the country in which the foreign corporation was created or organized.

Also, other corporations will be considered to have insurance income if they receive an amount substantially equal to the premiums or other consideration received by the foreign corporation described above and if the other corporation would be subject to taxation under subchapter L (insurance company tax) if the income were income of a domestic insurance company.

Enter insurance income on line 1, Worksheet A.

**Related Person Insurance Company Income.**—A related person insurance company is any foreign insurance company that is 25% or more owned by U.S. persons and the income of which is from the insuring or reinsuring of its U.S. shareholders (defined in section 953(c)(1)(A)) (and persons related to its U.S. shareholders). Related person insurance income is treated as foreign base company insurance income. An exception is made for foreign insurance companies if U.S. shareholders own at all times during the tax year less than 20% of the total combined voting power of all classes entitled to vote, and less than 20% of the total value of the corporation is owned by persons who are primarily insured under any policy of insurance or reinsurance issued by the corporation. Another exception applies if the amount of related person insurance income is small when compared to total insurance income. Income of a foreign corporation is not considered related person insurance income if the amount of related person insurance income is less than 20% when compared to total insurance income (without reduction for income from the country within which the corporation created or organized) of the company.

A related person insurance company may elect to treat related person insurance income as income effectively connected with a U.S. trade or business. The company must waive all treaty benefits (with respect to related person insurance income) and meet the requirement set forth by the Secretary to ensure that the tax imposed by this section is paid. Once the election is made, it may not be revoked unless the Secretary consents, and no withholding tax under section 1441 shall be imposed.

**Mutual Insurance Companies.**— The related person insurance income rules shall also apply to mutual insurance companies under regulations prescribed by the Secretary. For these purposes, policyholders shall be treated as shareholders.

Enter related person insurance income on line 2, Worksheet A.

**Computation of Investment in United States Property.**—See section 956(b) for definitions of U.S. property and exceptions.

**Election by an Individual To Be Taxed at Corporate Rates.**—A U.S. shareholder who elects to be taxed at corporate rates on

amounts included in income under section 951(a) must attach to his or her tax return a computation of tax under section 962.

**Form 5713, International Boycott Report.**—Any person, or a member of a controlled group (within the meaning of section 993(a)(3)), which includes that person, which has operations in, or related to, a country (or with the government, a company, or a national of a country) which requires participation in or cooperation with an international boycott as a condition of doing business within such country or with the government, company, or national of that country, may be required to file Form 5713. Any person subject to the reporting requirements of section 999(a) is required to file Form 5713 in duplicate. One copy of Form 5713 should be attached to the income tax return. File the other copy with the Internal Revenue Service Center, Philadelphia, PA 19255. For further details, see Form 5713.

**International Boycott Income.**—If a controlled foreign corporation or a member of a controlled group (within the meaning of section 993(a)(3)) that includes the foreign

corporation agrees to participate in or cooperate with an international boycott, a portion of the income of the controlled foreign corporation is included in subpart F income. The amount included in subpart F income is determined by multiplying the income of the controlled foreign corporation (other than income included under section 951 and U.S. source effectively connected business income described in section 952(b)) by the international boycott factor. The international boycott factor is a fraction determined on Schedule A (Form 5713).

**Special Rule.**—If the shareholder of a controlled foreign corporation can clearly demonstrate that the income earned for the tax year is attributable to specific operations, then, instead of applying the international boycott factor, the addition to Subpart F income is the amount specifically attributable to the operations in which there was participation in or cooperation with an international boycott. See Schedule B (Form 5713).

Enter the amount of international boycott income on line 4 of worksheet A.

## Worksheets for Computing Income From a Controlled Foreign Corporation

Use the questions that follow as a guide in completing the various worksheets below.

- 1 Did the sum of the foreign corporation's foreign base company income (determined without regard to applicable deductions) and gross insurance income exceed the lesser of 5% of gross income or \$1,000,000? If "Yes," complete worksheet B.
- 2 Did the controlled foreign corporation receive income for insurance or annuity contracts on the life, health, or property of persons outside the corporation's country of creation or organization, or receive similar consideration (section 952(a)(1))? If "No," omit line 1 of worksheet A.
- 3 Has any amount ever been excluded from the foreign base company income of the controlled foreign corporation because of an increase in qualified investments in less developed country corporations or because of an increase in qualified investments in foreign base company shipping operations? If "Yes," complete worksheet D.
- 4 Has any amount ever been excluded from the subpart F income of the controlled foreign corporation because it qualified as an export trade corporation? If "Yes," complete worksheet F.
- 5 Did the controlled foreign corporation hold any United States property at the close of its tax year (other than property excluded under section 956(b)(2))? If "Yes," complete worksheet C.
- 6 Is the controlled foreign corporation a foreign investment company or a foreign personal holding company? If "Yes," see section 951(c) or (d) and the related regulations.

### Worksheet A—Pro Rata Share of Subpart F Income

1 Insurance income (other than related person insurance income)	
2 Related person insurance income	
3 Foreign base company income (worksheet B)	
4 International boycott income (see section 952(a)(3) and Form 5713)	
5 Amount of illegal bribes, kickbacks, or other payments (see section 952(a)(4))	
6 Section 952(a)(5) income	
7 Add lines 1 through 6	
8 Pro rata share of line 7 (see regs. sec. 1.951-1(e))	
9 Pro rata share of earnings and profits limitation (section 952(c))	
10 Line 8 or line 9, whichever is less	
11 Pro rata share of reduction for export trade income (worksheet E)	
12 Subtract line 11 from line 10	
13 (Number of days in tax year corporation was a controlled foreign corporation over number of days in tax year) times line 12	
14 Dividends paid to any other person with respect to your stock	
15 (Number of days in tax year you did not own such stock over number of days in tax year) times line 12	
16 Line 14 or line 15, whichever is less	
17 Pro rata share of subpart F income (line 13 less line 16). Enter here and on line 1, Schedule J	

## Worksheet B—Foreign Base Company Income

Show gross amounts before exclusions. If the entire gross income of the controlled foreign corporation is treated under section 954(b)(3)(B) as foreign base company income, separate the gross income into foreign base company shipping income and other than foreign base company shipping income. Enter the amount of foreign base company shipping income on line 1 and complete lines 1 through 5; however, the exclusion on line 2c is not allowed if the corporation only has foreign base shipping income. Enter the balance of the gross income on line 17 and complete the worksheet; however, the exclusion on line 18a is not allowed.

<b>1</b>	Foreign base company shipping income (see regulations section 1.954-6)	
<b>2</b>	Less foreign base company shipping income excluded under:	
<b>a</b>	Section 952(b) (U.S. sourced income under subpart F)	
<b>b</b>	Section 954(b)(4)	
<b>c</b>	Section 954(b)(6) and (7)	
<b>d</b>	Dividends described in section 959(b)	
<b>3</b>	Subtract line 2 from line 1	
<b>4</b>	Deductions allocable to income shown on line 3 (section 954(b)(5))	
<b>5</b>	Subtract line 4 from line 3	
<b>6</b>	Rents and royalties (other than foreign base company shipping income)	
<b>7a</b>	Rents and royalties derived in the active conduct of a trade or business and received from an unrelated person (section 954(c)(2)(A))	
<b>b</b>	Rents and royalties received from a related person for the use of property in the country of incorporation of the controlled foreign corporation (section 954(c)(3)(A)(11))	
<b>8</b>	Subtract line 7 from line 6	
<b>9</b>	Dividends, interest, and net gains from the sale or exchange of stock or securities	
<b>10</b>	Dividends, interest, and net gain described in sections 954(b)(6)(A) and 954(c)(3)(A)	
<b>11</b>	Subtract line 10 from line 9	
<b>12</b>	Other foreign personal holding company income	
<b>13</b>	Total foreign personal holding company income (add lines 8, 11, and 12)	
<b>14</b>	Foreign base company sales income (section 954(d)) or section 923(a)(2) non-exempt income	
<b>15</b>	Foreign base company services income (section 954(e))	
<b>16</b>	Foreign base company oil related income (section 954(g))	
<b>17</b>	Total—add lines 13 through 16	
<b>18</b>	Exclusion of certain gross amounts included in line 17:	
<b>a</b>	Income described in section 954(b)(6)(B)	
<b>b</b>	Income described in section 954(b)(4)	
<b>c</b>	Dividends described in section 959(b)	
<b>d</b>	Exclusion of U.S. sourced income (section 952(b))	
<b>19</b>	Subtract line 18 from line 17	
<b>20</b>	Deductions (including taxes) allocable to amounts included on line 19 (section 954(b)(5))	
<b>21</b>	Subtract line 20 from line 19	
<b>22</b>	Foreign base company income (line 5 plus line 21). Enter here and on line 3, worksheet A	

**Worksheet C—Pro Rata Share of Increase in Earnings Invested in U.S. Property**

1	Amount of U.S. property (other than property excluded under section 956(b)(2)) held, directly or indirectly, by the controlled foreign corporation at the close of the tax year . . . . .	
2	If limitation applies, enter current and accumulated earnings and profits at the close of the tax year (see regs. sec. 1.956-1(b)) . . . . .	
3	Amounts of earnings invested in U.S. property at the close of the tax year which would constitute a dividend if distributed on such date (line 1 or line 2, whichever is applicable) . . . . .	
4	Amount of U.S. property (other than property excluded under section 956(b)(2)) held, directly or indirectly, by the controlled foreign corporation at the close of the preceding tax year . . . . .	
5	If limitation applies, enter current and accumulated earnings and profits at the close of the preceding tax year (see regs. sec. 1.956-1(b)) . . . . .	
6	Amount of earnings invested in U.S. property at the close of the preceding tax year which would constitute a dividend if distributed on such date (line 4 or line 5, whichever is applicable) . . . . .	
7	Amounts paid during the preceding tax year to which section 959(c)(1) applies . . . . .	
8	Subtract line 7 from line 6 . . . . .	
9	Pro rata share of line 3 (see regs. sec. 1.956-1(d)) . . . . .	
10	Pro rata share of line 8 (see regs. sec. 1.956-1(d)) . . . . .	
11	Subtract line 10 from line 9 . . . . .	
12	(Number of days in tax year corporation was a controlled foreign corporation over number of days in tax year) times line 11 . . . . .	
13	Amounts excludable under section 959(a)(2). . . . .	
14	Pro rata share of increase in earnings invested in United States property (subtract line 13 from line 12). Enter here and on line 2, Schedule J . . . . .	

**Worksheet D—Pro Rata Share of Previously Excluded Subpart F Income Withdrawn From Qualified Investments in Less Developed Country Corporations and From Qualified Investments in Foreign Base Company Shipping Operations**

1	Decrease in qualified investments in less developed countries (see regs. sec. 1.955-1(b)(1)) and foreign base company shipping operations (see regs. sec. 1.955A) . . . . .	
2	Limitation (see regs. sec. 1.955-1(b)(2)):	
	a Sum of earnings and profits for the tax year and earnings and profits accumulated for prior tax years beginning after December 31, 1962 . . . . .	
	b Sum of amounts invested in less developed countries or foreign base company shipping operations and excluded from foreign base company income for all prior tax years, less sum of such amounts withdrawn for such years (see regs. sec. 1.955-1(b)(2)(i)) . . . . .	
3	Enter line 2a or line 2b, whichever is less . . . . .	
4	Previously excluded subpart F income withdrawn for the tax year (line 1 or line 3, whichever is less) . . . . .	
5	Pro rata share of line 4 (see regs. sec. 1.955-1(c)) . . . . .	
6	(Number of days in tax year corporation was a controlled foreign corporation over number of days in tax year) times line 5. Enter here and on line 3, Schedule J . . . . .	

**Worksheet E—Pro Rata Share of Reductions for Export Trade Income**

1	Total export trade income (section 971(b)) . . . . .	
2	Amount of line 1 which constitutes foreign base company income included in line 22, worksheet B . . . . .	
3	150% of export promotion expenses allocable to export trade income which constitutes foreign base company income (see regs. sec. 1.970-1(b)(2)(i)) . . . . .	
4	10% of gross receipts and gross amounts received or accrued which are attributable to export trade income which constitutes foreign base company income (see regs. sec. 1.970-1(b)(2)(ii)) . . . . .	
5	Increase in investments in export trade assets (see regs. sec. 1.970-1(d)(2)) . . . . .	
6	Line 5 times line 2 divided by line 1 . . . . .	
7	Reduction for export trade income—enter the smallest of line 2, 3, 4, or 6 . . . . .	
8	Pro rata share of line 7 (see regs. sec. 1.951-1(e)). Enter here and on line 11, worksheet A . . . . .	

**Worksheet F—Pro Rata Share of Previously Excluded Export Trade Income  
Withdrawn From Investment in Export Trade Assets**

1	Decrease in investments in export trade assets (see regs. sec. 1.970-1(d)(3))	
2	Pro rata share of line 1	
3	Pro rata share of the sum of earnings and profits for the tax year and earnings and profits accumulated for prior tax years beginning after December 31, 1962 (see regs. sec. 1.970-1(c)(2)(ii))	
4	Limitation under section 970(b) (see regs. sec. 1.970-1(c)(2)(i)):	
a	Pro rata share of the sum of the amounts by which subpart F income for prior tax years was reduced under section 970(a)	
b	Pro rata share of the sum of the amounts which were not included in subpart F income for prior tax years by reason of regs. sec. 1.972-1	
c	Add lines 4a and 4b	
d	Pro rata share of the sum of the amounts which were previously included in your gross income for prior tax years under section 951(a)(1)(A)(ii) by reason of section 970(b)	
5	Subtract line 4d from line 4c	
6	Enter the smallest of line 2, 3, or 5	
7	(Number of days in tax year corporation was a controlled foreign corporation over number of days in tax year) times line 6. Enter here and on line 4, Schedule J	

**Illegal Bribes, Kickbacks, or Other Payments.**—Under section 952(a)(4), the sum of the amounts of any illegal bribes, kickbacks, or other payments (within the meaning of section 162(c)) paid by or on behalf of the corporation, directly or indirectly, to an official, employee, or agent of a government is considered Subpart F income. These are payments that would be unlawful under the Foreign Corrupt Practices Act of 1977. Enter the total amounts of these payments on line 5 of worksheet A.

**Factoring Income.**—Factoring income arises when a person collects a trade or service receivable. If the receivable is acquired (directly or indirectly) from a related person, the income is treated as interest on a loan from the obligor under section 864(d)(1). Factoring income of a controlled foreign corporation is included in the income of its U.S. shareholders in all cases. Additionally, a trade or service receivable acquired by a controlled foreign corporation is considered an investment in U.S. property for purposes of section 956 if the obligor is a U.S. person.

Enter factoring income on line 5, Schedule J.

**Section 952(a)(5) Income.**—For tax years beginning after 1986, income of a controlled foreign corporation from any country described in section 901(j) will be deemed to be income to the U.S. shareholders of the controlled foreign corporation. The Secretary of State has prepared a list of countries that meet the requirements of section 901(j). The current list is the countries of: Afghanistan, Albania, Angola, Cambodia, Cuba, Iran, Libya, North Korea, People's Republic of Yemen, Syria, and Vietnam.

Enter the total amount of section 952(a)(5) income on line 6, Worksheet A.

**Section 263A, Uniform Capitalization Rules—Limitations on Deductions.**—Many items that were deductible under prior law must now be capitalized or included in inventory under the new uniform capitalization rules of section 263A. The new rules require corporations to

capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to these rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred in the course of production must be capitalized and is governed by special rules. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are \$10,000,000 or less. It does not apply to timber or property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property which is produced for use by the taxpayer if substantial construction has occurred before March 1, 1986.

The uniform capitalization rules are generally effective for costs and interest paid or incurred after 1986. With respect to inventory, the uniform capitalization rules apply to tax years beginning after 1986. Transitional rules are contained in section 803 of the Tax Reform Act of 1986.

In the case of inventory, some of the indirect costs which may not have been capitalized before the Tax Reform Act of 1986 must now be capitalized are administrative expenses; taxes; depreciation; insurance costs; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Current deductions may still be claimed for research and experimental costs under section 174, intangible drilling cost for oil and gas and geothermal property, and mining and exploration and development costs. Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see regulations section 1.263A-1T.

**Schedule K**—Shareholders in a controlled foreign corporation who are reporting subpart F income must complete Schedule K from the later of 1962 or the date the foreign corporation first generated subpart F income.

U.S. shareholders who are completing Form 5471 and Schedule O must complete Schedule K for the foreign corporation for all of its annual accounting periods since 1962.

**Schedule L**—Under certain circumstances described below, one person may file Form 5471 and the applicable schedules for other persons who have the same filing requirements as the person filing Form 5471 (and schedules).

- If you are an officer, director, or 10% or more U.S. shareholder in a foreign personal holding company who is filing Form 5471 and Schedule N and there are other officers, directors, or 10% or more U.S. shareholders who are required to file Form 5471 and Schedule N, you may file Form 5471 and Schedule N for these persons by completing Schedule L.

- If you have had Form 5471 and Schedule N filed on your behalf, you must attach a statement to your income tax return showing the name, address, taxpayer identifying number, type of return filed, and Service Center where the person filed Form 5471 and Schedule N for you. (Regulations section 1.6035-1(b)(3).)

- Any two or more officers or directors of a foreign corporation who must report information on Form 5471 and Schedule O with respect to one or more U.S. shareholders of that foreign corporation may jointly file Form 5471. One officer or

director must file Form 5471 and Schedule O in duplicate (as explained under "Who Must File") and complete Schedule L with respect to the other officers or directors.

Also, any two or more officers or directors required to file with respect to one or more shareholders of the same corporation may appoint, by one or more powers of attorney, one officer or director as attorney in fact for the purpose of preparing their separate returns or a joint return.

The power of attorney must be made in accordance with regulations section 1.6046-1(e)(3). It must be limited to a single tax year and to the preparation of Form 5471 and Part I of Schedule O. A copy of each power of attorney is not required to be filed with Form 5471 but must be available for inspection by the Internal Revenue Service.

• Two or more shareholders may jointly file Form 5471 and Schedule O for the same corporation. The shareholder who has an equal or greater value of stock must file Form 5471 and Schedule O and enter the name, address, and taxpayer identifying number of those other shareholder(s) in Schedule L. The shareholder for whom Form 5471 and Schedule O were filed must attach Schedule O and a statement to its income tax return showing the name, address, taxpayer identifying number, and Service Center where the person who filed Form 5471 and Schedule O on its behalf filed its income tax return.

**Schedule M**—Schedule M is an information return required by section 6038. Every U.S. person must file Schedule M for each foreign corporation that person controls for any 30 day period within the foreign corporation's annual accounting period. Schedule M is filed to report the transactions of the foreign corporation's annual accounting period ending with or within the U.S. person's income tax year.

A U.S. person who is otherwise required to file Schedule M will not have to file Schedule M if all of the following conditions are met:

- (1) the person does not own a direct interest in the foreign corporation, and
- (2) the person is required to file Schedule M only by rules of attribution, and
- (3) the person from whom the stock ownership is attributed files Form 5471 and Schedules L and M.

If you are exempted from filing Schedule M because all of the above conditions apply to you, you must submit a statement with your income tax return identifying the person who filed for you, that person's taxpayer identifying number, and the Service Center where that person files his or her income tax return.

**Schedule N**—Schedule N is an information return required by section 6035. It is used to report the activities of a foreign personal holding company.

**Foreign personal holding company.**—For tax years beginning after 1986, the following rules apply to foreign personal holding companies.

The ownership rules for determining if a foreign corporation is a foreign personal holding company have changed. The new rules are as follows. If at any time during the

tax year more than 50% of the combined voting power of all classes of stock entitled to vote or the total value of the stock of the corporation is owned (directly or indirectly) by or for a group of 5 or fewer U.S. citizens or residents, the foreign corporation is a foreign personal holding company.

The following entities do not qualify as foreign personal holding companies.

(1) A corporation exempt from income tax under subchapter F (sections 501-528); and

(2) A corporation organized and doing business under the banking and credit laws of a foreign country if it is established to the satisfaction of the Secretary that the corporation is not being used to avoid or evade taxes that would normally be imposed upon its shareholders. If the corporation meets this test, the Secretary will issue a certificate that the corporation is not a foreign personal holding company.

Shareholders of a foreign corporation that qualifies for exception (2) above must attach a copy of the Secretary's certificate to their income tax return for each tax year that they are shareholders in the corporation.

**Foreign Personal Holding Company Income.**—For tax years of foreign corporations that begin after 1986, foreign personal holding company income is defined as being income from dividends, interest (except export financing interest), royalties, annuities, and rents. Gain on the sale of property that produced the income listed above is also considered personal holding company income in certain cases. However, if the property is described in section 1221(1), or is such that it is sold in the ordinary course of the corporation's trade or business, the gain on sale or disposition is not personal holding company income. Generally, rents and royalties will not be considered personal holding company income if they are received from a non-related person in the active conduct of a trade or business. In addition, the underlying property will not be considered personal holding company income. Gain on foreign currency transactions (section 988) is also considered foreign personal holding company income.

**Other Types of Personal Holding Company Income.**—Gain from commodities transactions is considered personal holding company income. However, any gain arising from a bona fide hedging transaction reasonably necessary to the conduct of the trade or business by a producer, processor, merchant, or handler of commodities is not considered personal holding company income. To qualify for the exception, the corporation must be in the active conduct of producing, processing, or selling commodities.

**Income Not Considered Foreign Personal Holding Company Income.**—Dividends and interest received from a person related to the foreign personal holding company is not considered foreign personal holding company income if the related person is created or organized in the same foreign country as the foreign personal holding company and the related person has a substantial amount of its assets in that foreign country. In addition, income from rents and royalties received from a related

person for use of, or privilege of using, property in the country under whose laws the foreign personal holding company was created or organized is not considered foreign personal holding company income.

None of the above exceptions apply to items that reduce subpart F income.

**Gross income test.**—At least 60% of the foreign personal holding company's gross income (as defined in section 555(a)) is foreign personal holding company income (section 553).

Once a foreign personal holding company meets the gross income test, the minimum percentage is lowered to 50% for any subsequent tax year. The foreign corporation will, however, continue to be considered a foreign personal holding company until either (1) the stock requirement test is not met, or (2) the end of 3 consecutive tax years in each of which less than 50% of the gross income is foreign personal holding company income.

**Who Must File.**—Every U.S. citizen or resident who is an officer, director, or 10% or more (either directly or indirectly) shareholder in a foreign personal holding company must file Schedule N. The information is submitted for the foreign personal holding company's annual accounting period that ends with or within the officer's, director's, or shareholder's income tax year.

Whether an individual is considered an officer, director, or 10% or more shareholder is determined on the date that Form 5471 is required to be filed. If no individual qualifies as of that date, the determination is made on the last day of the foreign corporation's tax year in which there was such a person who was a U.S. citizen or resident.

An individual is considered to own the stock owned by members of his or her family as described in section 554(a)(2).

**Corporation that ceases to be a foreign personal holding company.**—File a return for a corporation that ceased being a foreign personal holding company after the tax year ended, if it was a foreign personal holding company during the tax year.

**Change in rights.**—If, during the tax year, an amendment to the corporate charter or any other cause changed the rights of various classes of shareholders or the conversion privileges of outstanding securities, attach a statement to the return describing the changes in detail.

**Corporation organized or reorganized during the tax year.**—If you are filing for a tax year in which the corporation was organized or reorganized, submit the following information:

(a) A list of the classes and kinds of assets transferred to the corporation for corporate stock or securities in connection with the organization or reorganization.

(b) A detailed list of any stock or securities included in the assets transferred to the corporation for its stock or securities.

(c) A list of the names and addresses of the persons who, immediately before the transfer, owned assets transferred to the corporation for its stock or securities.

**First-time filer.**—If this is the first time you are submitting information required under section 6035, attach the following information:

(a) A statement of stock ownership showing that during the corporation's tax year more than 50% in value of its outstanding stock was owned, directly or indirectly, by or for not more than five individual citizens or residents of the U.S.

(b) A detailed statement of the conversion privileges of any outstanding securities that are convertible to the corporation's stock.

(c) A detailed statement of the respective rights of the various classes of shareholders if more than one class of stock is outstanding.

This information does not, however, need to be submitted if it was previously furnished by another person.

### **Specific Instructions for Part I (Schedule N)**

**Section A.**—List in Section A the outstanding securities of the foreign personal holding company that are convertible into the stock of the foreign personal holding company. List the interest rate and the face value of the securities at the beginning and end of the corporation's annual accounting period.

Also list in Section A any options granted by the corporation during its tax year.

**Section B.**—Identify each person who is the holder of convertible securities in the foreign personal holding company. Also, enter the class of securities held, the number and face value at the beginning and end of the corporation's tax year, and an explanation of any change in the holdings for each person holding the convertible securities.

Enter the name and address of each person granted an option for the stock of the foreign personal holding company.

### **Specific Instructions for Part II (Schedule N)**

Part II is used to report the income and deductions of the foreign personal holding company's tax year.

**Section A.**—Computation of Undistributed Foreign Personal Holding Company Income.

**Line 2.**—Enter on line 2 any adjustments to the earnings and profits of the foreign personal holding company that are used to arrive at the taxable income of the foreign personal holding company. Examples of items that would increase the taxable income of the foreign personal holding company might be (1) expenses that are not deductible for income tax purposes but have been used in arriving at earnings and profits, and (2) excesses of capital losses over capital gains. Examples of amounts that would reduce the earnings and profits of the foreign personal holding company to arrive at its taxable income might be expenses deducted in prior years to determine earnings and profits of the foreign personal holding company that are properly chargeable in the current year in determining taxable income.

**Line 5.**—Excess of expenses and depreciation over income from property not allowable under section 556(b)(5).—Section 556(b)(5) provides a specific limitation in computing undistributed personal holding company income with respect to the allowance of deductions for trade or business expenses and depreciation that are allocable to the operation and maintenance of the property owned or operated by a foreign personal holding company. These deductions will not be allowed in excess of the aggregate amount of the rent or other compensation received for the use of, or the right to use, the property unless it is established to the satisfaction of the Commissioner:

(a) that the rent or other compensation received was the highest obtained, or, if none was received, that none was obtainable;

(b) that the property was held in the course of a business carried on for profit; and

(c) either that there was reasonable expectation that the operation of the property would result in a profit or that the property was necessary to the conduct of the business.

If excess deductions are claimed, attach a statement for each property showing the following:

(a) a description of the property;

(b) the cost or other basis to the corporation and the nature and value of the consideration paid for the property;

(c) the name and address of the person from whom the property was acquired and the date the property was acquired;

(d) the name and address of the person to whom the property was leased or rented, or the person permitted to use the property, and the number of shares of stock, if any, held by the person and the members of his or her family;

(e) the nature (cash, securities, services, etc.) and the gross amount of rent or other compensation received or accrued for the use of, or the right to use, the property during the tax year and for each of the 5 preceding years and the amount of expense incurred with respect to, and the depreciation sustained on, the property for such years;

(f) evidence that the rent or other compensation was the highest obtainable or, if none was received or accrued, a statement of the reason that none was received or accrued;

(g) a copy of the contract, lease, or rental agreement;

(h) the purpose for which the property was used;

(i) the business carried on by the corporation with respect to which the property was held and the gross income, expenses, and taxable income derived from the conduct of such business for the tax year and for each of the 5 preceding years;

(j) the reasons for acquiring the property, for expecting that it would be profitable, and for using the property in the business of the corporation; and

(k) any other information in support of the deductions.

**Line 6.**—Deductions for taxes and payments to employees' pension trusts not allowable under section 556(b)(6).—Enter the total amount of any deductions taken in computing taxable income under the provisions of section 164(e), relating to taxes of a shareholder paid by the corporation, and section 404, relating to pension, trusts, etc.

**Line 8.**—Contributions deductible under section 556(b)(2).—For purposes of computing undistributed foreign personal holding company income, section 556(b)(2) and the related regulations apply to the limitations in section 170(b)(1)(A), (B), and (D).

The term "contribution base" when used in section 170(b)(1) means the corporation's taxable income computed (1) with the adjustments, other than the 10% limitation, provided in section 170(b)(2), (2) without the deduction of the amount disallowed under section 556(b)(5) (relating to expenses and depreciation applicable to property of the taxpayer) and section 556(b)(6) (relating to taxes and contributions to pension and trusts), and (3) without the inclusion of the amounts includible as dividends under section 555(b) (relating to the inclusion in gross income of a foreign personal holding company of its distributive share of the undistributed foreign personal holding company income of another company in which it is a shareholder).

The carryover of charitable contributions made in a prior year is not allowed as a deduction in computing undistributed foreign personal holding company income for any tax year.

**Line 9—Taxes.**—Section 556(b)(1) provides a deduction for Federal income tax accrued (or, in some cases, paid) during the tax year, but not including the accumulated earning tax imposed by section 531 or the personal holding company tax imposed by section 541.

Attach a schedule showing (a) the nature of income on which Federal income tax was paid or withheld at the source; (b) when and where the tax was paid or withheld; (c) the amount of tax paid or accrued; and (d) the tax year to which the tax relates.

Also, attach a schedule of income, war profits, and excess profits tax of foreign countries and possessions of the U.S. accrued during the tax year to the extent not allowable as a deduction because a foreign tax credit was claimed.

**Line 10—Net operating loss for the preceding tax year.**—Section 556(b)(4) provides that in lieu of the net operating loss deduction provided in section 172 there will be allowed the amount of the net operating loss (as defined in section 172(c)) for the preceding tax year computed without the deductions provided in sections 241 through 250, except for section 248.

**Section B.**—Deduction for dividends paid.—Enter the deduction for dividends paid provided in section 561. The deduction for dividends paid is the sum of the dividends paid during the tax year and the consent dividends for the tax year (determined under section 565).

The rules in section 562 will apply in determining the deduction for dividends paid. Compute the deduction in Section B and attach (a) a copy of each dividend resolution, and (b) a concise statement of the pertinent facts relating to the payment of each dividend, clearly specifying (1) the medium of payment, and (2) if not paid in money, the fair market value and adjusted basis (or face value, if paid in the corporation's own obligations) on the date of distribution of the property, and (3) the manner in which the fair market value and adjusted basis were determined.

**Schedule O**—Schedule O is used to report the organization or reorganization of a foreign corporation and the acquisition of its stock under section 6046. U.S. persons who are officers, directors, or shareholders in a foreign corporation must complete Schedule O in certain cases described below.

## Who Must Complete Schedule O

**A. Officers and directors.**—Every U.S. citizen or resident who is a director or officer of a foreign corporation must complete Schedule O to report each U.S. person who:

(1) acquires stock in a foreign corporation (in one or more transactions) that gives that person a 5% or more ownership in the foreign corporation. Stock owned by the U.S. person on January 1, 1963, however, is not considered in determination of the 5% amount, or

(2) acquires an additional 5% ownership in the foreign corporation after Schedule O has been filed.

### Examples—

(1) Mr. Harris is a U.S. citizen who is a director of a foreign corporation. Mr. Johnson, also a U.S. citizen, acquired stock in that corporation in the following transactions—

- (a) on March 1, 1984, Johnson acquires 2% of the corporation's stock;
- (b) on October 1, 1984, Johnson acquires an additional 2% of the corporation's stock; and
- (c) on December 1, 1984, Johnson acquires an additional 2% of the corporation's stock.

Harris is required to report Johnson's December 1, 1984, transaction since Johnson at that point owned more than 5% of the foreign corporation.

(2) The facts are the same as above. Also, Johnson acquires an additional 4% of the foreign corporation's outstanding stock on March 1, 1985, and on April 1, 1985, Johnson acquires an additional 2% of the foreign corporation's outstanding stock.

Harris does not have to complete Schedule O for the March 1, 1985, transaction since Johnson had not acquired an additional 5% or more since Harris last filed Form 5471 and Schedule O. Harris is, however, required to complete Schedule O for the April 1, 1985, transaction since Johnson had, at that time, acquired an additional 5% or more of the foreign corporation's outstanding stock.

**B. Shareholders.**—Every U.S. person must file Schedule O when:

(a) the person acquires (whether in one or more transactions) outstanding stock of a foreign corporation which has, or which when added to any stock then owned by that person (excluding any stock owned on January 1, 1963, if on that date he or she owned 5% or more in value of stock) has a value equal to 5% or more in value of the outstanding stock of the foreign corporation;

(b) the person, having already acquired 5% or more in value of the outstanding stock of the foreign corporation or the interest referred to in (a) above:

- (i) acquires (whether in one or more transactions) an additional 5% or more in value of the outstanding stock of the foreign corporation,
  - (ii) owns 5% or more in value of the outstanding stock of the foreign corporation when the foreign corporation is reorganized, or
  - (iii) disposes of sufficient stock in the foreign corporation to reduce his or her interest to less than 5% in value of the corporation, or
- (c) the person becomes a U.S. person while owning 5% or more in value of the outstanding stock of the foreign corporation.
- (d) Every U.S. person who has an interest in a passive foreign investment company on January 1, 1987, must file Form 5471 and Schedule O to report that interest.

Every U.S. person who acquires an interest in a passive foreign investment company after January 1, 1987, is required to file Form 5471 and Schedule O to report such acquisition.

Any U.S. person who is required to report the acquisition of an interest in a passive foreign investment company must also report the disposition of such interest in a passive foreign investment company.

### Examples—

(1) On June 10, 1983, a domestic corporation, Z, acquires a 6% ownership in a foreign corporation. Z completes Form 5471 and Schedule O to report this transaction. On July 7, 1983, Z acquires an additional 4% of the outstanding stock of the foreign corporation and on September 2, 1983, Z acquires an additional 2% of the foreign corporation's outstanding stock. Z is not required to complete Schedule O for the July 7, 1983, transaction, but Z must complete Schedule O to report the September 2, 1983, transaction since that transaction gives Z an additional 5% or more ownership from the last time Z became liable for completing Schedule O (June 10, 1983).

(2) On May 1, 1983, D, a domestic corporation, owns 15% of the outstanding stock of a foreign corporation. On August 7, 1983, the foreign corporation was reorganized. As a result, D then owned 7% of the foreign corporation's outstanding stock. D must complete Schedule O to report this transaction.

(3) The facts are the same as above in example (2). Additionally, on October 1, 1983, D donates 3% of the outstanding stock of the foreign corporation to a charitable organization. D must complete Schedule O to report this transaction since the transaction reduces D's interest in the foreign corporation to less than 5%.

## C. Persons not required to file:

(1) An officer or director is not required to file Schedule O to report an acquisition of stock by a shareholder if:

(a) three or fewer U.S. persons own 95% or more in value of the outstanding stock of the foreign corporation, and

(b) a U.S. person files a return as a shareholder to report the acquisition.

An officer or director is not required to file Schedule O for a shareholder who is described below.

(2) A shareholder is not required to file Schedule O if all of the following conditions are met:

(a) the shareholder does not directly own an interest in the foreign corporation,

(b) the shareholder is required to furnish the information solely by reason of attribution of stock ownership from a U.S. person, and

(c) the person from whom the stock ownership is attributed furnishes all of the information required of the person to whom the stock ownership is attributed.

(3) For rules regarding shareholders who do not have to file Schedule O (formerly Form 959) because shareholders who own more stock file for them, see regulations section 1.6046-1(e)(5). If you are a shareholder who is filing for other shareholders in this situation, enter those shareholders' names in Schedule L.

## Specific Instructions (Schedule O)

### Part I

Column (a).—Enter the name of the shareholder whose transaction is being reported.

Column (b).—Enter the address of the shareholder being reported in column (a).

Column (c).—Enter the taxpayer identifying number for the shareholder being reported in column (a). For individuals, this is their social security number. For all others, it is their employer identification number.

Column (d).—Enter the date the shareholder being reported in column (a) first acquired a 5% or more ownership in the foreign corporation.

Column (e).—Enter the date the shareholder being reported in column (a) acquired an additional 5% or more ownership in the foreign corporation.

### Part II

Part II may be completed by one or more shareholders who are participating in the same transaction that gives rise to the completion of Schedule O.

#### Section A.—

Column (a).—Enter the name of each shareholder who is completing Schedule O.

Column (b).—Enter the following for the last U.S. income tax return filed by the shareholder listed in column (a).

Column (1).—Enter the type of return filed (for example, Forms 1040, 1065, 1120, etc.).

Column (2).—Enter the date the last return was filed.

Column (3).—Enter the Internal Revenue Service Center where the shareholder listed in column (a) filed its last income tax return.

Column (c).—Enter the last date the shareholder listed in column (a) filed any information required by section 6046.

**Section B.**—The shareholder completing Section B must enter the following information with respect to any U.S. citizen or resident who is an officer or director of the foreign corporation.

Column (a).—Enter the name of each officer or director of the foreign corporation who is a U.S. citizen or resident.

Column (b).—Enter the address of each individual listed in column (a).

Column (c).—Enter the social security number of the individual listed in column (a).

Column (d).—Check the appropriate box or boxes that identify the individual listed in column (a).

**Section C.**—Section C is completed by shareholders who are completing Schedule O because they have acquired sufficient stock in a foreign corporation. If the shareholder acquired the stock in more than one transaction, use a separate line to report each transaction.

Column (a).—Enter the name of the U.S. shareholder.

Column (b).—Enter the class of stock acquired by the person listed in column (a).

Column (c).—Enter the date the stock was acquired by the person listed in column (a).

Column (d).—Enter the method of acquisition. (For example, “purchase,” “gift,” “bequest,” “trade,” etc.)

Column (e).—Enter the number of shares.

Column (1).—Acquired directly by the person listed in column (a).

Column (2).—Acquired indirectly by the shareholder listed in column (a), such as through the purchase of stock in one foreign corporation that has sufficient ownership in a second foreign corporation that would require the shareholder to file Schedule O.

Column (3).—Constructively owned by the shareholder listed in column (a).

For purposes of column (3), stock owned directly or indirectly by, or for, a foreign corporation or a foreign partnership is considered as being owned proportionately by its shareholders or partners. An individual is considered as owning the stock owned directly or indirectly by, or for, his or her brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.

Column (f).—Enter the amount paid by the shareholder listed in column (a) for the shares of stock listed in column (e). If no price was paid, enter the value given for the shares.

Column (g).—Enter the name and address of the person from whom the shareholder listed in column (a) purchased the shares of stock entered in column (e).

**Section D.**—Shareholders who dispose of their interest (or part) in a foreign corporation are to complete Section D.

Column (a).—The shareholder who is disposing of their interest (or part) in a foreign corporation should enter his or her name in column (a).

Column (b).—The shareholder enters the class of stock in column (b).

Column (c).—The shareholder enters the date the ownership was transferred to the transferee.

Column (d).—The shareholder enters the method of disposition in column (d). Among the methods of disposition are sale, bequest, gift, or transfer.

Column (e).—The shareholder enters the manner and number in which the shares of the foreign corporation were disposed of. For example, if the shareholder sells the shares directly to another person, the shareholder would enter the number of shares transferred in column (1).

Column (f).—The shareholder disposing of the stock enters the amount of consideration received for his stock.

Column (g).—The shareholder who is disposing of the shares of stock enters the name and complete address of the person receiving the stock.

#### **Example for Section D**

In 1984, Mr. Jackson, a U.S. citizen, purchased 10,000 shares of common stock of foreign corporation X. The purchase represented 10% ownership of the foreign corporation.

On July 1, 1986, Mr. Jackson made a gift of 5,000 shares of foreign corporation X to his son, John. Since Mr. Jackson has reduced his holding in the foreign corporation by 5%, he is required to complete Form 5471 and Schedule O. To show the required information about the disposition, Mr. Jackson completes Section D as follows.

Enters his name in column (a).

Enters “common” in column (b).

Enters July 1, 1986 in column (c).

Enters “gift” in column (d).

Enters 5,000 in subcolumn (1) of column (e).

Enters -0- in column (f) since the disposition was by gift.

Enters the name and address of his son, John, in column (g)

**Section E.**—U.S. shareholders must report when the foreign corporation is organized or reorganized. The shareholder is to enter the same information if the corporation is being organized or reorganized.

Column (a).—The shareholder is to enter in column (a) the name and address of the person who transfers assets into the corporation.

Column (b).—The shareholder is to enter in column (b) the identifying number of the person who transferred the asset or assets to the corporation.

Column (c).—The shareholder is to enter in column (c) the date of the transfer of the assets to the foreign corporation.

Column (d).—The shareholder is to enter in column (d) identifying data about the transferred asset.

Column (1).—The shareholder is to enter a description of the asset(s) transferred to the foreign corporation in subcolumn (1).

Column (2).—Enter the fair market value of the transferred asset(s).

Column (3).—If the person transferring the assets was a United States person, enter the adjusted basis of the transferred asset(s).

Column (e).—Enter in column (e) a description of the assets transferred to the foreign corporation, and any notes returned to the transferor by the foreign corporation.

#### **Example of Requirement of Providing List If Foreign Corporation Is a Member of a Chain of Corporations**

Mr. Lyons acquires a 10% ownership in foreign corporation F. F is the 100% owner of two foreign corporations, FI and FJ. F is also a 50% owner of foreign corporation FK. In addition, F is 100% owned by foreign corporation W.

Mr. Lyons completes and files Form 5471 and Schedule O for the corporations in which he is a 5% or more shareholder.

In addition, Mr. Lyons is required to submit a schedule if the foreign corporation is a member of a chain of corporations, and to indicate if he is a 5% or more shareholder in any of those corporations.

Mr. Lyons would prepare a list showing the corporations in the following order: corporation W, corporation F, corporation FI, corporation FJ, and corporation FK. Then Mr. Lyons is required to indicate that he is a 5% or more shareholder in corporations F, FI, FJ, and FK.

# Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification Codes (SIC), they should not be used as the SIC codes.

Using the list below, enter on page 1, under 1g, the code number for the specific industry group from which the largest percentage of "total receipts" is derived.

If, as its principal business activity, the corporation (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under "Manufacturing."

## Agriculture, Forestry, and Fishing

- Code**  
 0400 Agricultural production  
 0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

## Mining

- Metal mining**  
 1010 Iron ores  
 1070 Copper, lead and zinc, gold and silver ores  
 1098 Other metal mining  
 1150 Coal mining
- Oil and gas extraction**  
 1330 Crude petroleum, natural gas, and natural gas liquids  
 1380 Oil and gas field services
- Nonmetallic minerals, except fuels**  
 1430 Dimension, crushed and broken stone; sand and gravel  
 1498 Other nonmetallic minerals, except fuels

## Construction

- General building contractors and operative builders**  
 1510 General building contractors  
 1531 Operative builders  
**1600 Heavy construction contractors**
- Special trade contractors**  
 1711 Plumbing, heating, and air conditioning  
 1731 Electrical work  
 1798 Other special trade contractors

## Manufacturing

- Food and kindred products**  
 2010 Meat products  
 2020 Dairy products  
 2030 Preserved fruits and vegetables  
 2040 Grain mill products  
 2050 Bakery products  
 2060 Sugar and confectionery products  
 2081 Malt liquors and malt  
 2088 Alcoholic beverages, except malt liquors and malt  
 2089 Bottled soft drinks, and flavorings  
 2096 Other food and kindred products  
**2100 Tobacco manufacturers**
- Textile mill products**  
 2228 Weaving mills and textile finishing  
 2250 Knitting mills  
 2298 Other textile mill products
- Apparel and other textile products**  
 2315 Men's and boys' clothing  
 2345 Women's and children's clothing  
 2388 Other apparel and accessories  
 2390 Miscellaneous fabricated textile products
- Lumber and wood products**  
 2415 Logging, sawmills, and planing mills  
 2430 Millwork, plywood, and related products  
 2498 Other wood products, including wood buildings and mobile homes  
**2500 Furniture and fixtures**

## Code

- Paper and allied products**  
 2625 Pulp, paper, and board mills  
 2699 Other paper products
- Printing and publishing**  
 2710 Newspapers  
 2720 Periodicals  
 2735 Books, greeting cards, and miscellaneous publishing  
 2799 Commercial and other printing, and printing trade services
- Chemicals and allied products**  
 2815 Industrial chemicals, plastics materials and synthetics  
 2830 Drugs  
 2840 Soap, cleaners, and toilet goods  
 2850 Paints and allied products  
 2898 Agricultural and other chemical products
- Petroleum refining and related industries (including those integrated with extraction)**  
 2910 Petroleum refining (including integrated)  
 2998 Other petroleum and coal products
- Rubber and misc. plastics products**  
 3050 Rubber products, plastics footwear, hose and belting  
 3070 Misc. plastics products
- Leather and leather products**  
 3140 Footwear, except rubber  
 3198 Other leather and leather products
- Stone, clay, and glass products**  
 3225 Glass products  
 3240 Cement, hydraulic  
 3270 Concrete, gypsum, and plaster products  
 3298 Other nonmetallic mineral products
- Primary metal industries**  
 3370 Ferrous metal industries; misc. primary metal products  
 3380 Nonferrous metal industries
- Fabricated metal products**  
 3410 Metal cans and shipping containers  
 3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products  
 3430 Plumbing and heating, except electric and warm air  
 3440 Fabricated structural metal products  
 3460 Metal forgings and stampings  
 3470 Coating, engraving, and allied services  
 3480 Ordnance and accessories, except vehicles and guided missiles  
 3490 Misc. fabricated metal products
- Machinery, except electrical**  
 3520 Farm machinery  
 3530 Construction and related machinery  
 3540 Metalworking machinery  
 3550 Special industry machinery  
 3560 General industrial machinery  
 3570 Office, computing, and accounting machines  
 3598 Other machinery except electrical

## Code

- Electrical and electronic equipment**  
 3630 Household appliances  
 3665 Radio, television, and communication equipment  
 3670 Electronic components and accessories  
 3698 Other electrical equipment  
**3710 Motor vehicles and equipment**
- Transportation equipment, except motor vehicles**  
 3725 Aircraft, guided missiles and parts  
 3730 Ship and boat building and repairing  
 3798 Other transportation equipment, except motor vehicles
- Instruments and related products**  
 3815 Scientific instruments and measuring devices; watches and clocks  
 3845 Optical, medical, and ophthalmic goods  
 3860 Photographic equipment and supplies  
**3998 Other manufacturing products**

## Transportation and Public Utilities

- Transportation**  
 4000 Railroad transportation  
 4100 Local and interurban passenger transit  
 4200 Trucking and warehousing  
 4400 Water transportation  
 4500 Transportation by air  
 4600 Pipe lines, except natural gas  
 4700 Miscellaneous transportation services
- Communication**  
 4825 Telephone, telegraph, and other communication services  
 4830 Radio and television broadcasting
- Electric, gas, and sanitary services**  
 4910 Electric services  
 4920 Gas production and distribution  
 4930 Combination utility services  
 4990 Water supply and other sanitary services

## Wholesale Trade

- Durable**  
 5008 Machinery, equipment, and supplies  
 5010 Motor vehicles and automotive equipment  
 5020 Furniture and home furnishings  
 5030 Lumber and construction materials  
 5040 Sporting, recreational, photographic, and hobby goods, toys and supplies  
 5050 Metals and minerals, except petroleum and scrap  
 5060 Electrical goods  
 5070 Hardware, plumbing and heating equipment and supplies  
 5098 Other durable goods
- Nondurable**  
 5110 Paper and paper products  
 5129 Drugs, drug proprietaries, and druggists' sundries  
 5130 Apparel, piece goods, and notions  
 5140 Groceries and related products  
 5150 Farm-product raw materials  
 5160 Chemicals and allied products  
 5170 Petroleum and petroleum products  
 5180 Alcoholic beverages  
 5190 Misc. nondurable goods

## Retail Trade

- Building materials, garden supplies, and mobile home dealers**  
 5220 Building materials dealers  
 5251 Hardware stores  
 5265 Garden supplies and mobile home dealers  
**5300 General merchandise stores**
- Food stores:**  
 5410 Grocery stores  
 5490 Other food stores
- Automotive dealers and service stations**  
 5515 Motor vehicle dealers  
 5541 Gasoline service stations  
 5598 Other automotive dealers  
**5600 Apparel and accessory stores**  
**5700 Furniture and home furnishings stores**  
**5800 Eating and drinking places**

## Code

- Misc. retail stores**  
 5912 Drug stores and proprietary stores  
 5921 Liquor store.  
 5995 Other retail stores
- Finance, Insurance, and Real Estate**
- Banking**  
 6030 Mutual savings banks  
 6060 Bank holding companies  
 6090 Banks, except mutual savings banks and bank holding companies
- Credit agencies other than banks**  
 6120 Savings and loan associations  
 6140 Personal credit institutions  
 6150 Business credit institutions  
 6199 Other credit agencies
- Security, commodity brokers and services**  
 6210 Security brokers, dealers, and flotation companies  
 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services
- Insurance**  
 6355 Life insurance  
 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies  
 6359 Other insurance companies  
 6411 Insurance agents, brokers, and service
- Real estate**  
 6511 Real estate operators and lessors of buildings  
 6516 Lessors of mining, oil, and similar property  
 6518 Lessors of railroad property and other real property  
 6530 Condominium management and cooperative housing associations  
 6550 Subdividers and developers  
 6599 Other real estate
- Holding and other investment companies, except bank holding companies**  
 6742 Regulated investment companies  
 6743 Real estate investment trusts  
 6744 Small business investment companies  
 6749 Other holding and investment companies except bank holding companies
- Services**
- 7000 Hotels and other lodging places**  
**7200 Personal services**
- Business services**  
 7310 Advertising  
 7389 Business services, except advertising
- Auto repair; misc. repair services**  
 7500 Auto repair and services  
 7600 Misc. repair services
- Amusement and recreation services**  
 7812 Motion picture production, distribution, and services  
 7830 Motion picture theaters  
 7900 Amusement and recreation services, except motion pictures
- Other services**  
 8015 Offices of physicians, including osteopathic physicians  
 8021 Offices of dentists  
 8040 Offices of other health practitioners  
 8050 Nursing and personal care facilities  
 8060 Hospitals  
 8071 Medical laboratories  
 8099 Other medical services  
 8111 Legal services  
 8200 Educational services  
 8300 Social services  
 8600 Membership organizations  
 8911 Architectural and engineering services  
 8930 Accounting, auditing, and bookkeeping  
 8980 Miscellaneous services (including veterinarians)